Decision **PROPOSED DECISION OF ALJ HALLIGAN** (Mailed 4/1/2014)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development.	Rulemaking 01-10-024 (Filed October 25, 2001)

DECISION GRANTING THE PETITION FOR MODIFICATION OF SOUTHERN CALIFORNIA EDISON COMPANY OF DECISION 04-01-050 TO ESTABLISH A NEW FILING DATE FOR ITS ANNUAL ENERGY RESOURCE RECOVERY ACCOUNT FORECAST APPLICATION

1. Introduction

Southern California Edison Company (SCE) filed this Petition for Modification (Petition) to request modification of Decision 04-01-050 to establish a new application filing date of May 1 for SCE's annual Energy Resource Recovery Account (ERRA) forecast application. The current ERRA forecast application filing date is August 1. SCE states that a new filing date is warranted to provide ample time for the Commission to review and act upon SCE's forecast application so that the new rates can be implemented on January 1 to recover the procurement-related costs that are forecasted to be incurred for that year. By having a timely Commission order that can be implemented on January 1 of the following year, SCE customers will pay in rates for the forecasted procurement-related costs over the entire calendar year during which those costs are incurred. In doing so, customers may experience fewer rate changes, and SCE will be less likely to find itself, as it did in 2013, in a triggered position, necessitating another ERRA application and mid-cycle rate changes. In short, SCE asserts it is proposing a filing schedule change that will benefit SCE's customers. The Office of Ratepayer Advocates does not oppose the application, but suggests some methods to improve the ERRA forecast application process.

2. Discussion

2.1. Background on Decision 04-01-050

Decision (D.) 04-01-050 adopted the long-term regulatory framework under which each of California's three largest investor-owned utilities will plan for and procure the energy resources and demand-side investments necessary to ensure their customers receive reliable service at low and stable prices. Paramount among the objectives of the Commission's regulatory procurement framework has been the need for price stability, or stated differently, stability in the rates that utilities charge their customers.

D.04-01-050 adopted a "2005 ERRA Schedule" that specifies the dates that each of the three utilities would follow, and in Southern California Edison Company (SCE's) case, has followed, since its issuance. For SCE, D.04-01-050 states that SCE "2005 ERRA Forecast" should be filed on August 1, 2004. Importantly, in connection with this filing date, the decision notes: "The dates have been changed so the Investor-owned Utilities (IOUs) file earlier in the year. This will allow IOU/PUC to have decisions out by the end of the year."[1] Thus, the California Public Utilities Commission's (Commission) express objective in selecting these dates was to allow timely decisions to be rendered by the end of the calendar year.

[1] D.04-01-050 at 177, footnote 2.

However, SCE notes that in the nine years since D.04-01-050 was issued, the Commission has not issued a final decision for SCE's annual Energy Resource Recovery Account (ERRA) forecast by the end of the year. When approval of the forecast application is delayed, the forecasted procurement costs beginning on January 1 are recovered under rates set using the prior year's approved revenue requirement rather than rates that are intended to recover the procurement costs that are incurred beginning on January 1. Thus, there has been a systemic mismatch in timing between the forecast period and the time at which the costs are recovered in rates as well as a mismatch between the procurement-related revenues and expenses. This timing and revenues/expenses mismatch can easily be corrected by a year-end Commission decision on SCE's forecast applications enabling SCE to put the new rates into effect on January 1.

2.2. SCE's 2013 Trigger Application

When SCE's ERRA balance falls above or below its 4% trigger point and 5% threshold, and the balance is in either an under- or over-collected position, and that balance is not expected to self-correct to a point below the 4% trigger point within 120 days, SCE must file a supplemental trigger application requiring Commission action within 60 days of the filing of that application.[2] SCE found its ERRA balance to be in a triggered position in 2013, necessitating a trigger application.

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[2] D.02-10-062; D.04-01-050 at 177.

In SCE's August 28, 2013 trigger Application (A.) 13-08-022, SCE identified the lack of a timely 2013 forecast decision as a driving factor for its triggered position. In its application, SCE stated:

> SCE is awaiting a final Commission decision approving its 2013 ERRA forecast revenue requirement as filed in A.12-08-001. The approval and implementation of SCE's requested 2013 ERRA revenue requirement would enable SCE to collect updated revenues that more closely match the expenses currently being incurred. Absent that approval, SCE has continued to recover ERRA-related revenues under the 2012 ERRA revenue requirements forecast approved in D.12-07-006. Each month as SCE collects 2012 ERRA-Related Revenues (instead of its 2013 requested revenues), the ERRA undercollection continues to increase.[3]

Thus, if a Commission decision is delayed on a forecast application that is intended to have procurement costs collected in rates beginning January 1 and actual costs are higher than the prior year's forecast, then the costs that would have been recovered in rates during the first part of the calendar year form an under-collection of forecasted ERRA costs.

Accordingly, SCE is now filing this Petition to implement a new ERRA forecast application filing date of May 1 both to avoid further trigger applications that are precipitated by the circumstances noted here and to provide stable rates to SCE's customers.

2.3. SCE's Proposed Schedule Modification

SCE says its proposed change to D.04-01-050 is a purely procedural one of moving SCE's annual ERRA forecast application filing date from its current August 1 date to May 1. SCE also requests that the Commission allow SCE to file

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[3] A.13-08-022, at 7-8.

its update on October 1. SCE believes advancing the filing date forward should give ample time to the Commission to render a final decision before year-end. Due to resource constraints, SCE also needs to provide a window of time between its ERRA forecast application and its annual ERRA compliance application, which is submitted on April 1 of each year.

In sum, SCE argues the proposed date change is a simple, procedural-only schedule modification that will benefit SCE customers by eliminating or mitigating the likelihood of mid-year rate changes and thus produce more stable rates, which is the stated objective of D.04-01-050. Further, eliminating those trigger applications that are caused by the timing mismatch, as explained above, will create efficiencies in the use of the Commission's and SCE's resources allocated to ERRA-related work.

2.4. Office of Ratepayer Advocate's (ORA's) Response

The ORA filed a response to the Petition on December 20, 2013. ORA does not object to SCE's proposal to move the filing date of SCE's annual ERRA forecast application from August 1 to May 1, subject to three conditions. First, ORA requests that the Commission direct that SCE's annual forecast application include a public workshop to be conducted no later than 21 days from the forecast application filing date, starting with SCE's 2015 forecast application. The Commission should order SCE to provide a detailed explanation of its forecast methodology, input assumptions, and major drivers of the forecast outcomes during the workshop. This workshop will facilitate the exchange of information among the parties, and make SCE's application more transparent to the public. Second, ORA requests that the Commission order SCE to provide ORA, as part of the forecast application, a spreadsheet designed to perform sensitivity analyses of the main forecast inputs. The Commission should also order SCE to consult with ORA regarding the design of the model spreadsheet. ORA explains that this analytical tool will allow ORA to test SCE's forecast under different scenarios, verify the accuracy of SCE's estimates, and ascertain whether the forecast is based on reasonable assumptions. Third, ORA requests that the Commission direct SCE to assemble a revenue requirement outlook for each of the next three years, and provide this forecast to ORA by November 1 of each year, along with a spreadsheet designed to conduct sensitivity analyses on the main inputs impacting the three-year outlook. The Commission should also require SCE to provide the three year outlook to the Procurement Review Group before December 1 of each year.

ORA explains that as the ERRA forecasts for the three large investor owned utilities will occur under a compressed timeline, these recommendations will ensure that the forecast applications receive the appropriate level of review.

Finally, ORA states that while it does not oppose the change in the application filing date, SCE's request to shift the filing date of its update to October 1 is problematic because the final forecast depends on applying an updated market price benchmark that cannot occur before November of each year. ORA recommends that the Commission direct SCE to continue to file its update in November.

3. Conclusion

The ERRA forecasts serve two primary functions: they are expected to provide stable rates (i.e., to avoid trigger applications), and customers will pay in rates the forecasted procurement-related costs over the year that the costs are incurred. When the ERRA forecast decision is delayed into the forecast year, customers will pay the prior year rates for the current costs; a result to be avoided. We agree with SCE that moving the forecast application date to May 1 will increase the likelihood that the decision will issue by year end, and as a result, customers will pay for the forecasted procurement-related costs during the calendar year in which those costs are incurred.

However, we also agree with ORA that in light of the newly compressed timeframe in which the parties to the forecast application proceedings will be reviewing the annual forecast applications, requiring to provide sensitivity analyses and participate in a workshop to explain the forecast methodology, input assumptions, and major drivers of the forecast will facilitate efficient and effective review of the applications.

SCE agrees that a workshop to discuss the forecast application could be useful, but does not agree to ORA's other requests. Specifically, SCE objects to the request that SCE provide a "spreadsheet designed to perform sensitivity analyses of the main forecast inputs"… to "allow ORA to test SCE's forecast under different scenarios (e.g., unusually high gas prices, unusually low demand, unusually dry year, combination of unusual conditions, etc.)" and "verify the accuracy of SCE's estimates."[4] SCE states that its forecast is much more complicated than a simple spreadsheet analysis and uses multiple models, market data, and condition assumptions that are infeasible to model in an Excel-type spreadsheet. SCE maintains that the Commission need only examine SCE's forecast methodology and assumed forecast inputs because actual ERRA costs will be trued-up through the operation of the ERRA balancing account. SCE also requests that the Commission reject ORA's request for a three-year outlook as irrelevant to the merits of SCE's annual ERRA forecast application.

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[4] ORA Response at 2.

We believe that ORA's request that the Commission order SCE to provide ORA a spreadsheet designed to allow ORA to perform sensitivity analyses of the main forecast inputs has merit, but we are concerned about the efficacy of the approach, given SCE's comments. We note that all three IOUs have been required to provide a sensitivity analysis of, at a minimum, their natural gas prices[5] in recent ERRA proceedings, but we find that this question is one that is best addressed through a workshop in which all three IOUs, ORA, and other interested parties participate. We will therefore deny ORA's request that SCE be ordered to provide ORA with a spreadsheet designed to allow ORA to perform sensitivity analyses of the main forecast inputs at this time, but will direct the Commission's Energy Division to convene and facilitate a workshop, within 60 days of the effective date of this decision, to discuss possible mechanisms and models designed to enable interested parties to perform sensitivity analyses of the main forecast inputs and test the utilities' forecasts under different scenarios. We also decline to require SCE to assemble a revenue requirement outlook for each of the next three years, but direct Energy Division to include this concept in their workshop for discussion.

4. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on April 22, 2014, and reply comments were filed on ___________________ by ____________________.

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[5] See, for example, the Assigned Commissioner's Scoping Memo and Ruling in A.11-06-004, at 8.

5. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Julie M. Halligan is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The adopted schedule for Annual ERRA forecast applications is designed to allow the Commission to issue a decision on the applications by the end of the year in which the application is filed.
2. An August 1 Annual ERRA forecast application can reasonably be expected to result in a Commission decision after January 1 of the following year.
3. Granting SCE's petition for modification will reasonably ensure a year-end decision and reduce the likelihood that customers will pay prior year rates for current year costs.
4. Granting ORA's request for a workshop during which SCE must provide an explanation of its forecast methodology, input assumptions, and major drivers of the forecast will facilitate the expedited processing of the three large IOUs' Annual ERRA forecast applications.

Conclusions of Law

1. The petition for modification of SCE of D.04-01-050 to establish a new filing date for its Annual ERRA forecast application is reasonable and should be granted.
2. As requested in SCE's November 20, 2013, petition, the filing date for SCE's Annual ERRA forecast application should be modified such that SCE shall file its forecast application on May 1 of the year proceeding the forecast year.
3. ORA's request for a workshop during which SCE must provide an explanation of its forecast methodology, input assumptions, and major drivers of

the forecast will facilitate the expedited processing of the three large IOUs' Annual ERRA forecast applications and should be granted.

O R D E R

IT IS ORDERED that:

1. The November 20, 2013 petition for modification filed by Southern California Edison Company is granted, subject to certain conditions.
2. The filing date for Southern California Edison Company's Annual Energy Resource Recovery Account forecast applications shall be changed from August 1 to May 1.
3. Southern California Edison Company shall continue to file its Energy Resource Recovery Account forecast update in November.
4. If the effective date of this order is on or later than May 1, 2014, Southern California Edison Company may file its Annual Energy Resource Recovery Account forecast application for 2015 within 60 days of the effective date of this decision.
5. The Office of Ratepayer Advocates' request for a workshop during which Southern California Edison Company must provide an explanation of its forecast methodology, input assumptions, and major drivers of the forecast is granted.
6. Southern California Edison Company is required to convene the workshop discussed in Ordering Paragraph 5, above, within 30 days of the date of filing its Annual Forecast Application for 2014.
7. Within 60 days of the effective date of this decision, the Commission's Energy Division shall conduct a workshop to discuss methods designed to enable interested parties to perform sensitivity analyses of the Energy Resource

Recovery Account main forecast inputs and test the investor-owned utilities' forecasts under different scenarios.

8. Rulemaking 01-10-024 is closed.

This order is effective today.

Dated ____________________________, at Los Angeles, California.